

Message Text

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ACTION EB-08

INFO OCT-01 EA-07 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 FPC-01 H-01 INR-07 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06
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C O N F I D E N T I A L JAKARTA 03499

E.O. 11652: GDS
TAGS: ENRG, ID
SUBJECT: OIL NEGOTIATIONS - DISCUSSION WITH MINISTER OF STATE
WIDJOJO

1. MINISTER OF STATE WIDJOJO INVITED ME TO HIS OFFICE
YESTERDAY AFTERNOON TO DISCUSS THE FORTHCOMING IGGI MEETING
AND THE PLEDGES OF VARIOUS COUNTRIES INCLUDING US. I WAS
ACCOMPANIED BY AID DIRECTOR AND ECON/COMM COUNSELOR AND USED
OCCASION TO DISCUSS OTHER SUBJECTS WITH WIDJOJO INCLUDING
STATUS OF OIL NEGOTIATIONS.

2. I TOLD WIDJOJO THAT WE WERE CONCERNED ABOUT FUTURE OF
OIL PRODUCTION IN INDONESIA AND THAT I HAD PERSONALLY FOL-
LOWED GOI NEGOTIATIONS WITH OIL COMPANIES VERY CLOSELY. I
SAID THAT INDONESIA SEEMED TO BE BECOMING LESS COMPETITIVE
FOR OIL COMPANY INVESTMENT AND THAT A CONTINUED DOWNTURN IN
EXPLORATION WOULD HAVE SERIOUS IMPLICATIONS FOR INDONESIAN
ECONOMIC DEVELOPMENT AND DEBT SERVICING. IN THE VIEW OF
OIL COMPANIES GOI HAD NOT GONE FAR ENOUGH WITH THE INCENTIVES
CURRENTLY BEING OFFERED AND THAT SOME COMPANIES WERE
CONCERNED ABOUT PROTRACTION OF THE NEGOTIATIONS. I
EMPHASIZED THAT WE WERE NOT IN POSITION TO ENDORSE COMPANY
VIEWS, THAT WE RECOGNIZED THAT COMPANIES WERE IN NEGOTIAT-
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ING STANCE, BUT WE WERE GETTING CLEAR EVIDENCES OF
LESSENING COMPANY INTEREST WHICH WE FELT NEEDED TO BE SER-
IOUSLY REGARDED.

3. WIDJOJO REPLIED THAT HE HAD GIVEN A LOT ATTENTION TO
THIS MATTER AND THAT HE WAS AWARE OF THE BROADER IMPLICA-
TIONS OF THE ISSUES FOR INDONESIAN DEVELOPMENT. HE SAID

PERTAMINA WAS ANXIOUS TO DEVELOP ITS OWN FIELDS, AND HAD INVITED OIL COMPANIES TO JOIN IN WITH PERTAMINA ON A PRODUCTION-SHARING BASIS TO PARTICIPATE IN THIS DEVELOPMENT. PARTICIPATION WOULD BE ON A 50/50 BASIS FOR THE COST OF DEVELOPMENT BUT THE "REGULAR FORMULA" (85/15) WOULD APPLY TO PRODUCTION. HE WAS INTERESTED TO LEARN WHAT THE OIL COMPANIES' RESPONSES ON THE COMPANIES' 50 PERCENT INTEREST WOULD BE. HE ALSO SAID THAT IT WOULD HELP HIM IF WE COULD MAKE AVAILABLE INFORMATION THAT WOULD SHED SOME LIGHT ON THE "BASIC ASSUMPTIONS" WHICH THE OIL COMPANIES ARE USING IN THEIR ASSESSMENT OF THE ADEQUACY OF THE INCENTIVES. A SYNTHESIS OF COMPANY VIEWS AND AN ANALYSIS OF HOW THE COMPANIES SEE THE INCENTIVES CURRENTLY BEING OFFERED BY THE GOI WOULD BE USEFUL TO HIM. I SAID THAT WE WOULD BE PLEASED TO PROVIDE HIM WITH OUR OWN SYNTHESIS OF COMPANY REACTIONS.

4. REGARDING HIS PROPOSED VISIT IN THE UNITED STATES AFTER THE IGGI MEETING, I ASKED WIDJOJO WHETHER HE WOULD BE WILLING TO MEET WITH OIL COMPANY EXECUTIVES IN THE US. HE REPLIED EMPHATICALLY THAT HE WOULD BE PLEASED TO DO SO, ADDING WITH A SMILE THAT "COMPANIES WOULD BECOME SUSPICIOUS IF I TRY TO AVOID THEM." COMMENT: DEPARTMENT MAY WISH TO CONSIDER PROPER FORUM FOR SUCH AN ADDRESS.

5. COMMENT: THIS WAS FIRST TIME THAT I HAVE RAISED OIL INCENTIVES ISSUE WITH WIDJOJO. CONVERSATION CERTAINLY CONFIRMED WHAT WE HAVE KNOWN FOR SOME TIME, NAMELY THAT WIDJOJO'S INFLUENCE ON ALL ECONOMIC ISSUES INVOLVING

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INDONESIA IS OVERRIDING. I WILL, OF COURSE, MAKE AVAILABLE TO HIM A SUMMARY OF COMPANY REACTIONS, AS BEST WE KNOW THEM, TO THE INCENTIVE PROPOSALS AND HOPE THAT THIS MAY BE USEFUL IN CLARIFYING THE COMPANIES' POSITION TO HIM.

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